



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 17, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo  
Auditor-Controller

**SUBJECT: CITY OF NORWALK – A DEPARTMENT OF PUBLIC SOCIAL  
SERVICES CALWORKS STAGE ONE CHILD CARE SERVICES  
PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of the City of Norwalk (Norwalk or Agency), which covered a sample of transactions from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Public Social Services (DPSS) contracts with Norwalk, a local government agency, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether Norwalk appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid Norwalk a fixed monthly fee of \$125, and a negotiated monthly rate of \$160 per participant to fund Stage One Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, Norwalk develops a rate agreement and pays the child care provider directly. DPSS reimburses Norwalk for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid Norwalk approximately \$1.9 million during FYs 2012-13 and 2013-14. Norwalk provides services to residents of the Fourth Supervisorial District.

### **Results of Review**

Norwalk provided services to eligible participants and child care providers, recorded and deposited DPSS cash receipts timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of their County contract requirements. Specifically, Norwalk:

- Did not reconcile the monthly fixed-fee payments they received from DPSS for operating costs to actual cost expenditures on their quarterly reconciliation invoices as required.

*Norwalk's attached response indicates that they will ensure that the monthly fixed-fee payments received from DPSS for operating costs are reconciled to actual cost expenditures on their quarterly reconciliation invoices.*

- Inappropriately allocated \$13,074 (100%) in shared expenditures to the Stage One Program based on fixed-fee payments instead of actual conditions as required.

*Norwalk's attached response indicates that they reallocated all shared expenditures charged to the Stage One Program during the contract term using allowable methods and their actual expenditures exceeded payments from DPSS. Norwalk also indicated that they will provide DPSS with supporting documentation.*

- Overbilled DPSS \$14,622 in direct provider payments for FY 2012-13.

*Norwalk's attached response indicates that they disagree they overbilled DPSS \$14,622. They indicated that the discrepancy we noted in their accounting records was due to a timing difference in reporting expenditures at year end. Subsequent to our review, the Agency provided documentation to support the \$14,622 to confirm there was no overbilling.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with Norwalk and DPSS in February 2015. Norwalk's attached response (Attachment II) indicates general agreement with our findings and recommendations. DPSS will work with Norwalk to ensure that our recommendations are implemented.

We thank Norwalk management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer  
Sheryl L. Spiller, Director, DPSS  
Marcel Rodarte, Mayor, Norwalk  
Mike Egan, City Manager, Norwalk  
Public Information Office  
Audit Committee

**CITY OF NORWALK  
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2012-13 AND 2013-14**

**ELIGIBILITY**

**Objective**

Determine whether the City of Norwalk (Norwalk or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements, and whether the child care providers were eligible to provide Stage One Program services.

**Verification**

We reviewed the case files for 11 (10%) of the 110 participants who received services, and 11 (12%) of the 92 child care providers who provided child care during May 2014 for documentation to confirm the participants' eligibility to receive, and the providers' eligibility to provide, Stage One Program services.

**Results**

Norwalk had documentation to support all 11 participants' eligibility to receive, and all 11 providers' eligibility to provide, Stage One Program services.

**Recommendation**

**None.**

**PROGRAM SERVICES**

**Objective**

Determine whether Norwalk provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

**Verification**

We visited Norwalk's service site and reviewed the case files for 11 (10%) of the 110 participants who received services, and 11 (12%) of the 92 child care providers who provided child care during May 2014.

**Results**

The case files for the 11 participants and 11 child care providers reviewed had documentation to support that Norwalk provided services in accordance with their County contract.

**Recommendation**

None.

**STAFFING QUALIFICATIONS****Objective**

Determine whether Norwalk's staff had the qualifications required by their County contract.

**Verification**

We reviewed the personnel files for five (63%) of the eight Norwalk employees who worked on the Stage One Program.

**Results**

Norwalk's five staff reviewed had the qualifications required by their County contract.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether Norwalk properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and if bank account reconciliations were reviewed and approved by Agency management.

**Verification**

We interviewed Norwalk's management, and reviewed their financial records and May 2014 bank reconciliation.

**Results**

Norwalk properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) cash receipts into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

**Recommendation**

None.

**ADMINISTRATIVE CONTROLS****Objective**

Determine whether the Agency is in compliance with Stage One Program and other County contract administrative requirements.

**Verification**

We interviewed Agency personnel, conducted on-site reviews, and reviewed their policies and procedures manuals. We also reviewed Norwalk's compliance with other program and administrative requirements.

**Results**

DPSS compensates Norwalk monthly on a fixed-fee basis for operating costs. The contract requires the Agency to reconcile the fixed-fee payments they receive from DPSS to actual cost expenditures, and submit quarterly reconciliation invoices to DPSS. However, we noted that the Agency did not reconcile the fixed-fee payments on their quarterly reconciliation invoices as required.

**Recommendation**

1. **City of Norwalk management ensure that the fixed-fee payments received from the Department of Public Social Services are reconciled to actual cost expenditures on the Agency's quarterly reconciliation invoices as required.**

**EXPENDITURES/COST ALLOCATION PLAN****Objective**

Determine whether expenditures charged to the Stage One Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance

with their County contract, and used the Plan to allocate shared expenditures appropriately.

### **Verification**

We interviewed Norwalk's personnel, and reviewed their Plan, and financial records for ten direct provider payments, totaling \$8,087, and ten non-payroll expenditures, totaling \$8,285, that the Agency charged to the Stage One Program during Fiscal Year (FY) 2013-14.

### **Results**

Norwalk prepared their Plan in compliance with their County contract, and appropriately charged \$8,087 (100%) in direct provider payments to the Stage One Program. However, Norwalk inappropriately charged \$8,285 or 100% of the shared non-payroll expenditures reviewed to the Stage One Program. Specifically, the Agency allocated shared expenditures based on fixed-fee payments instead of actual conditions as required.

### **Recommendations**

#### **City of Norwalk management:**

- 2. Reallocate all expenditures charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled or unsupported amounts.**
- 3. Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.**

### **PAYROLL AND PERSONNEL**

#### **Objective**

Determine whether Norwalk charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

#### **Verification**

We traced the payroll costs for five employees, totaling \$4,789 for March 2014, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for five Norwalk Stage One Program staff.

**Results**

Norwalk maintained personnel files as required. However, Norwalk inappropriately charged \$4,789 (100%) of the shared payroll costs reviewed to the Stage One Program. Specifically, as noted earlier in our report, the Agency allocated shared expenditures based on fixed-fee payments instead of actual conditions as required.

**Recommendation**

**Refer to Recommendations 2 and 3.**

**CLOSE-OUT REVIEW****Objective**

Determine whether Norwalk had any unspent revenue for the Stage One Program for FY 2012-13.

**Verification**

We traced the total revenues and expenditures from Norwalk's FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

**Results**

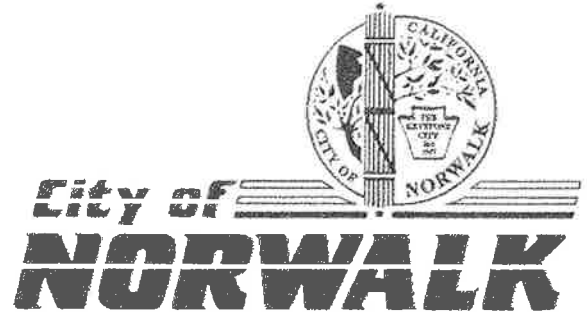
Norwalk's close-out report indicated that they did not have any unspent revenue for FY 2012-13. However, we noted that Norwalk received \$704,006 from DPSS for FY 2012-13 direct provider payments, and the Agency's accounting records indicated their FY 2012-13 direct provider payments totaled \$689,384, resulting in a \$14,622 overbilling. In addition, Norwalk needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

**Recommendations**

**City of Norwalk management:**

- 4. Revise their accounting records based on our recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**
- 5. Repay the Department of Public Social Services \$14,622.**





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February 9, 2015

John Naimo  
Auditor-Controller  
County of Los Angeles  
Department of Auditor-Controller  
Countywide Contract Monitoring Division  
350 South Figueroa Street, 8<sup>th</sup> Floor  
Los Angeles, CA 90071

Dear John,

The City of Norwalk is in receipt of the draft audit report of the CalWORKs Stage One Child Care Services (Stage One) Program for the fiscal years 2012-13 and 2013-14.

The City of Norwalk's responses to the draft findings are as follows:

**Finding #1** – Did not reconcile the monthly fixed-fee payments they received from DPSS for operating costs to actual costs expenditures on their quarterly reconciliation invoices as required.

**Recommendation #1:** City of Norwalk management ensure that the fixed-fee payments received from the Department of Public Social Services are reconciled to actual cost expenditures on the Agency's quarterly reconciliation invoices as required.

**City's Response:** The City agrees with Recommendation #1 and has requested from the Auditor-Controller staff and the DPSS a format or template of the required quarterly reconciliation invoice. The City will use the format or template that will be provided and will ensure that monthly fixed-fee payments received from the DPSS for operating costs are reconciled to actual cost expenditures in subsequent submission of quarterly reconciliation invoices to the DPSS.

**Finding #2** – Did not maintain documentation to separately account for the Agency's actual costs for the Stage One Program. As a result, Norwalk inappropriately charged \$13,074 or 100% of the expenditure reviewed, to the Stage One Program.

**Recommendation #2:** Reallocate all expenditures charged to the Stage One Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled or unsupported amounts.

**Recommendation #3:** Ensure that all expenditures charged to the Stage One Program are allowable, properly documented and accurately billed.

**City's Response:** The City concurs with Recommendations #2 and #3 and reallocated expenditures equitably among the various child care contracts. The City allocated the salaries and benefits based on the number of children served during fiscal year 2014 and all other administrative operating costs were allocated equitably based on direct provider payments. The results of the reallocation showed that the City's actual expenditures allocated to Stage One program exceeds the fixed-fee payment received from the DPSS. Hence, the City did not overbill the DPSS for administrative operating costs. The calculation and supporting documentation of the reallocation will be provided to the DPSS.

The City will be conducting a time study of actual hours spent of each employee for the various child care programs in the next couple of months. The results of the time study will be used in equitably allocating salaries and benefits to the various programs in fiscal year 2014-15. The time study will be done in the middle of each subsequent fiscal year to determine that the percentage used in the allocation is accurate and represents the actual time and effort that each employee spent on the program. All necessary adjustment will be made such that the final amount of salaries and benefits charged to the programs are accurate, allowable and properly allocated. All the other administrative costs will be allocated based on direct provider payments. In addition, the City will create a new budget unit specifically for the Stage One program. Furthermore, the City will ensure that expenditures charged to the Stage One Program in the subsequent fiscal years are allowable, properly documented, and accurately billed.

**Finding #3** – Overbilled DPSS \$14,622 indirect provider payments for FY 2012-13.

**Recommendation #4:** Revise their accounting records based on our recommendations above, provide the Department of Public Social services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.

**Recommendation #5:** Repay the Department of Public Social Services \$14,622.

**City's Response:** The City does not agree with the audit Finding #3 and Recommendations #4 and #5. The difference of \$14,622 was not an overbilling, but rather a timing difference that arises from the difference in the basis of the amount billed to the County for direct provider payments and the recording of actual costs incurred during the fiscal year 2012-13 in the City's accounting records. The City bills the County each month, as required by the contract, using cash basis, that is, based on the actual payments made to the service providers during the billing month. However, these provider payments were for provider services incurred in the prior month. The City's accounting records, on the other hand, used the modified accrual basis wherein expenditures are recorded when a liability is incurred or at the time the services was performed. Hence, when the amount billed to the County and the expenditures in the accounting record is compared, it results in a discrepancy due to timing differences.

The City prepared a reconciliation of the amount billed to the DPSS (cash basis) and the actual direct provider payments recorded in accounting records (accrual basis). The results of the

reconciliation showed that the City did not have any unspent revenue for FY 2012-13. Hence, the City does not have an obligation to repay the Department of Public Social Services the amount of \$14,622. The City has provided the Auditor-Controller staff with the reconciliation and supporting documentation and will forward the same to the DPSS.

If you have any questions, please contact Christine Lim, Senior Accountant at (562) 929-5707 or me at (562) 929-5748.

Sincerely,



Jana Stuard  
Finance Director/City Treasurer